



Connecticut Petroleum Council

A Division of the American Petroleum Institute

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Testimony of Steven Guveyan, Connecticut Petroleum Council **Opposing SB-419, Gasoline Zone Pricing**

The Connecticut Petroleum Council/ API representing major oil companies, refiners and others in the petroleum business opposes SB-419 which bans gasoline zone pricing. We strongly recommend that fuel wholesalers and retailers continue being allowed to compete by offering different gasoline prices---which allows consumers to pick and choose from service stations offering higher or lower prices---rather than have the General Assembly mandate that fuel be sold to or at stations at uniform prices. As everyone knows, prices are supposed to vary, and consumers are supposed to shop.

The proposed gasoline zone pricing ban bill prohibits wholesalers from varying their prices to retailers for any reason---even competition! That leads to inflexible, anti-competitive pump pricing results. The bills clearly prevent intra-brand competition, an outcome which the Federal Trade Commission (FTC) has strongly warned against. The FTC, numerous studies, and an in-state study commissioned by our organization (API) and compiled using hard pricing data by professors at Quinnipiac University show the same types of results: that overall, zone pricing reduces prices, or that banning it leads to higher ones. In a letter dated May 2, 2007 to the Connecticut General Law Committee, the FTC explicitly warned legislators not to pass a gasoline zone pricing ban because it was not in the best interest of consumers. We find no evidence anywhere that a ban reduces prices or is consumer-friendly.

Under this proposal, a wholesaler selling gasoline cannot lower its price of gas to a retailer who has extreme competition (thereby benefiting consumers) without also lowering its prices to other retailers not facing that situation. If a wholesaler wants to sell gasoline at cost (no profit) at one location to meet a competitor, he must do so at ALL locations. As many in the past have testified, doing so puts the entire chain of stations at risk. Faced with losing the whole chain or just one station, the wholesaler may decline to meet the competitor's price and risk losing that one station. Overall, this leads to fewer stations and less competition, thereby hurting consumers.

Conversely, when a wholesaler increases prices to one station, it would be compelled to increase them statewide, thereby forcing up prices to a wide range of consumers who otherwise might not face a price increase. Competition in the gasoline market is local, not statewide, but a rule preventing increases at only certain stations forces prices statewide to go up or down in a uniform manner, thereby depriving customers of the price wars that exist in many portions of the state, such as the Berlin Turnpike. Sheraton and Marriott vary their prices by city based on competition in those cities, not on a statewide average, and Super Stop & Shop does the same for food because price competition by nature is local. Sears circulars have stated the price of tires it sells varies by store, and 3 BR, 2 BA home prices vary by town, even within a town, and many times even by street within the same town. The model for pricing gasoline to and from service stations mirrors what many other industries do---which is to vary prices in order to meet local competition.

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Not every man wears a size 40 jacket nor every woman a size 8 dress, and the same holds true for selling gasoline: there is no "perfect price" that will suit the needs of all, or even most buyers and sellers. Prices to and from service stations---even of the same brand---can and should vary to account for competition. Many gas retailers have testified over the years that their gasoline supplier lowered their price in order to compete with competitors over the Massachusetts state line, where prices are significantly lower (reason: because Massachusetts does not impose a petroleum gross receipts earnings tax which Connecticut does. That one tax at current prices adds about 13 cents per gallon to the price of fuel here, making it very difficult for Connecticut gas retailers to compete with retailers just over the Massachusetts line.)

Stated differently, consumer products offered to the public---houses, cars, food or appliances---don't utilize a uniform pricing model---which is also a form of price control---because they don't allow sellers to compete against tough competition. Prices are supposed to vary, consumers are supposed to shop, and that competition serves all parties well.

Regarding pump prices in the Stamford/ Greenwich area which usually are the highest in the state: more service stations (which means more competition) would lower prices. Stamford/Greenwich is wonderful area in which to live, but growth (UBS, RBS, Lexus dealership) has come at the expense of giving up gas stations, which those newer businesses have displaced. More stations would most likely lead to lower prices. The relatively small number of gas stations in that area is a function of the real estate market, which values the highest and best use of property as something other than a service station. If the population in those towns shrinks, or the number of stations increases, supply and demand would be more balanced.

For those reasons, we urge rejection on SB-419. Thank you for taking our testimony.